

House File 2456 - Introduced

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A BILL FOR

1 An Act creating an individual income tax credit for
2 contributions to an Iowa educational savings plan,
3 promoting the use of such plans, and including retroactive
4 applicability provisions.
5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

DIVISION I

IOWA EDUCATIONAL SAVINGS PLAN TAX CREDIT

Section 1. Section 12D.3, subsection 1, paragraph a, Code 2011, is amended to read as follows:

a. Each participation agreement may require a participant to agree to invest a specific amount of money in the trust for a specific period of time for the benefit of a specific beneficiary. A participant shall not be required to make an annual contribution on behalf of a beneficiary. The maximum contribution that may be deducted for Iowa income tax purposes shall not exceed two thousand dollars per beneficiary per year adjusted annually to reflect increases in the consumer price index. The maximum contribution that may be taken as a credit against income tax liability for Iowa income tax purposes shall not exceed two thousand dollars per participant per year adjusted annually to reflect increases in the consumer price index. The treasurer of state shall set an account balance limit to maintain compliance with section 529 of the Internal Revenue Code. A contribution shall not be permitted to the extent it causes the aggregate balance of all accounts established for the same beneficiary to exceed the applicable account balance limit.

Sec. 2. Section 12D.9, subsection 2, Code 2011, is amended to read as follows:

2. State income tax treatment of the Iowa educational savings plan trust shall be as provided in section 422.7, subsections 32 and 33, and section 422.11I.

Sec. 3. NEW SECTION. **422.11I Iowa educational savings plan tax credit.**

1. The taxes imposed under this division, less the credits allowed under section 422.12, shall be reduced by an Iowa educational savings plan tax credit. The credit shall be an amount equal to the lesser of the following:

a. Twenty-five percent of the annual contributions made on behalf of a beneficiary or beneficiaries to an Iowa educational

1 savings plan trust established pursuant to chapter 12D.

2 *b.* The maximum annual Iowa income tax credit allowed as a
3 participant in the Iowa educational savings plan trust pursuant
4 to section 12D.3, subsection 1, paragraph "a".

5 2. In order to be eligible, all of the following must apply:

6 *a.* The taxable income of the taxpayer, computed without
7 regard to section 422.7, subsection 32, paragraph "a", must
8 not exceed three hundred percent of the United States poverty
9 level as defined by the most recently revised poverty income
10 guidelines by the United States department of health and human
11 services. Married taxpayers who file separate returns or file
12 separately on a combined return form must determine taxable
13 income for purposes of this paragraph based upon their combined
14 income.

15 *b.* The taxpayer must not make the adjustment under section
16 422.7, subsection 32, paragraph "a", in the same year as a
17 credit is claimed under this section.

18 3. Any credit in excess of the tax liability shall be
19 refunded. In lieu of claiming a refund, the taxpayer may
20 elect to have the overpayment shown on the taxpayer's final,
21 completed return credited to the tax liability for the
22 following tax year.

23 4. Amounts refunded to the taxpayer resulting from the
24 cancellation of a participation agreement shall first be repaid
25 to the department to the extent previously claimed as a tax
26 credit under this section and shall then, if applicable, be
27 treated as an addition to net income under section 422.7,
28 subsection 32, paragraph "b".

29 5. Withdrawals made by a taxpayer from the Iowa educational
30 savings plan trust for purposes other than the payment of
31 qualified education expenses shall first be repaid to the
32 department to the extent previously claimed as a tax credit
33 under this section and shall then, if applicable, be treated
34 as an addition to net income under section 422.7, subsection
35 32, paragraph "c".

1 Sec. 4. RETROACTIVE APPLICABILITY. This division of this
2 Act applies retroactively to January 1, 2012, for tax years
3 beginning on or after that date.

4 DIVISION II
5 INFORMATIONAL MATERIAL RELATED TO IOWA EDUCATIONAL SAVINGS PLAN
6 TRUST

7 Sec. 5. NEW SECTION. 12G.3 Iowa educational savings plan
8 informational material.

9 1. The Iowa financial literacy program shall create a
10 written informational and promotional pamphlet to promote
11 the creation and use of Iowa educational savings plans under
12 chapter 12D. The pamphlet shall contain, at a minimum, a
13 detailed explanation of an Iowa educational savings plan,
14 instructions for opening an Iowa educational savings plan, and
15 the tax and other benefits of an Iowa educational savings plan.

16 2. The Iowa financial literacy program shall provide
17 the written informational and promotional pamphlet to the
18 department of education for dissemination as provided in
19 section 256.24.

20 Sec. 6. NEW SECTION. 256.24 Iowa educational savings plan
21 informational material.

22 The department shall provide to the parent or guardian of
23 each child registering for kindergarten in this state a copy of
24 the Iowa educational savings plan informational and promotional
25 pamphlet created and provided to the department by the Iowa
26 financial literacy program pursuant to section 12G.3.

27 EXPLANATION

28 This bill creates an Iowa educational savings plan tax
29 credit and provides for the promotion of Iowa educational
30 savings plans.

31 Division I of the bill relates to the Iowa educational
32 savings plan tax credit. Under current Code section 422.7,
33 subsection 32, a participant in an Iowa educational savings
34 plan is allowed an exemption from the computation of the
35 individual state income tax for certain amounts contributed to

1 a plan. The bill creates an individual income tax credit equal
2 to the lesser of 25 percent of the annual contributions made
3 to an Iowa educational savings plan or \$2,000 per participant
4 adjusted annually to reflect increases in the consumer price
5 index.

6 In order to qualify for the credit, a taxpayer's taxable
7 income must not exceed 300 percent of the United States poverty
8 level as defined by the most recently revised poverty income
9 guidelines by the United States health and human services, and
10 the taxpayer must not claim the individual income tax exemption
11 mentioned above. In determining taxable income for purposes
12 of eligibility for the tax credit, married taxpayers who file
13 separate returns or file separately on a combined return form
14 must determine taxable income based upon their combined income.

15 The tax credit is refundable to the extent it exceeds
16 tax liability. In lieu of claiming a refund, a taxpayer
17 may elect to have the overpayment shown on the taxpayer's
18 final, completed return credited to the tax liability for the
19 following tax year.

20 The bill establishes a hierarchy for the tax treatment
21 of amounts received by a taxpayer from the cancellation of a
22 participation agreement or withdrawn from a plan for purposes
23 other than the payment of qualified education expenses. Those
24 amounts shall first be repaid to the department of revenue
25 to the extent previously claimed as a tax credit. Next, if
26 applicable, the amounts shall be treated as an addition to net
27 income under Code section 422.7, subsection 32, paragraph "b"
28 or "c".

29 Division II of the bill relates to the promotion of Iowa
30 educational savings plans. The bill directs the Iowa financial
31 literacy program, which is a program within the office of
32 the treasurer of state, to create a written informational
33 and promotional pamphlet for the purpose of promoting the
34 creation and use of Iowa educational savings plans. The
35 pamphlet shall contain, at a minimum, a detailed explanation

1 of an Iowa educational savings plan, instructions for opening
2 a plan, and the tax and other benefits of a plan. The Iowa
3 financial literacy program is required to provide the pamphlet
4 to the department of education. The department of education
5 is required to provide a copy of the pamphlet to the parent or
6 guardian of each child registering for kindergarten in this
7 state.